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JOHN J. FINNIGAN, JR.  
Senior Counsel

**VIA OVERNIGHT MAIL**

August 26, 2004

Ms. Elizabeth O'Donnell  
Executive Director  
Kentucky Public Service Commission  
211 Sower Boulevard  
Frankfort, KY 40602

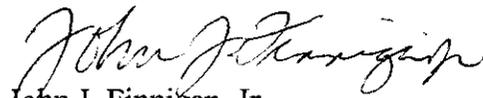
Re: Case No. 2004-00301

Dear Ms. O'Donnell:

Enclosed please find an original and seven (7) copies of The Union Light, Heat and Power Company's Responses to the Data Request of the Commission Staff.

Should you have any further questions, please do not hesitate to call me.

Very truly yours,

  
John J. Finnigan, Jr.  
Senior Counsel

JJF/sew

Enclosures

cc: Iris Skidmore, Esq.  
Kentucky Public Service Commission  
Environmental and Public Protection Cabinet

Elizabeth Blackford  
Assistant Attorney General  
Kentucky Attorney General's Office

**CINERGY®**

**RECEIVED**

AUG 27 2004

**PUBLIC SERVICE  
COMMISSION**

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

**RECEIVED**

AUG 27 2004

In the Matter of: )  
The Application of The Union Light, Heat )  
And Power Company for Deviation from the )  
Requirements of KRS 278.2207(1)(B) to )  
Permit Winter 2004-2005 Natural Gas )  
Purchases from Cinergy Marketing & )  
Trading, LP, an Affiliate )

PUBLIC SERVICE  
COMMISSION

Case No. 2004-00301

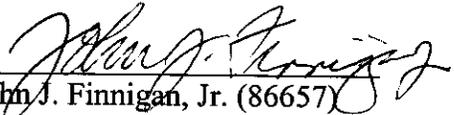
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**RESPONSES OF THE UNION LIGHT, HEAT AND POWER COMPANY TO  
THE COMMISSION STAFF'S FIRST DATA REQUEST**

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The Union Light, Heat and Power Company hereby submits the following responses to the Commission Staff's First Data Request.

Respectfully submitted,

  
John J. Finnigan, Jr. (86657)  
Senior Counsel  
Atrium II, 25<sup>th</sup> Floor  
THE CINCINNATI GAS &  
ELECTRIC COMPANY  
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**KyPSC Staff First Set Data Requests  
ULH&P Case No. 2004-00301  
Date Received: August 23, 2004  
Response Due Date: August 30, 2004**

**KyPSC-DR-01-001**

**REQUEST:**

1. In its application, ULH&P states that it sought bids for its base load transaction for the 2004-2005 winter season, but, for the swing transaction, it sought bids for both the 2004-2005 winter season and a term up to 2 years. Explain the reason(s) for the bid period for both the base load and swing transactions. Explain why the swing transaction included a solicitation of up to 2 years.

**RESPONSE:**

In spring 2004, ULH&P entered into fixed price hedging agreements with Conoco and Occidental for 10% of its base supply for the winter 2004-05 winter season. In May 2004, ULH&P solicited bids for 25% of its base supply for the winter 2004-05 season to be priced out utilizing "cost averaging" per its approved hedging plan. The bidding process was handled via telephone calls with three current suppliers of ULH&P who expressed a willingness to enter into cost averaging agreements. This process was only intended to hedge a portion of base supply, and was not a request for bids for the entire winter base supply.

In June 2004, ULH&P solicited bids for the remaining 65% of base supply that had not been previously locked in through the hedging program as well as all of its required swing supply. Although this Request for Proposals (RFP) included base supply, Cinergy Marketing & Trading (CM&T) was a winning bidder for swing supply only. Attachment A of ULH&P's Application shows that the RFP included both base and swing volumes for terms of 5, 12, 17 or 24 months. ULH&P requested longer terms to determine whether it could reduce supply reservation fees by locking in firm base and swing supply for longer periods.

**WITNESS RESPONSIBLE: James P. Henning**

**KyPSC Staff First Set Data Requests  
ULH&P Case No. 2004-00301  
Date Received: August 23, 2004  
Response Due Date: August 30, 2004**

**KyPSC-DR-01-002**

**REQUEST:**

2. State when the base load and swing transactions involving Cinergy Marketing & Trading, LP ("CM&T") were finalized.

**RESPONSE:**

On May 18, 2004, ULH&P finalized the details of its "cost averaging" base supply transaction with CM&T. ULH&P notified CM&T that they were a winning bidder for the swing supply on July 13, 2004. CM&T was informed that ULH&P would need approval from the Kentucky Public Service Commission for both of these transactions prior to November 1, 2004 when CM&T would begin deliveries. ULH&P did not immediately apply to the Commission for a deviation to cover the "cost averaging" hedging transaction because it knew that the firm base and swing load RFP was upcoming and ULH&P concluded that it would be more efficient to combine both transactions into a single application.

**WITNESS RESPONSIBLE: James P. Henning**

**KyPSC Staff First Set Data Requests  
ULH&P Case No. 2004-00301  
Date Received: August 23, 2004  
Response Due Date: August 30, 2004**

**KyPSC-DR-01-003**

**REQUEST:**

3. Refer to page 3 of the application. Explain in detail why ULH&P sought bids from only 3 vendors for its firm base load supply, rather than following the same approach used for the swing supply.

**RESPONSE:**

ULH&P sought bids from only three suppliers for the “cost averaging” hedging transaction due to those three suppliers having executed similar transactions with ULH&P in the past or being familiar with “cost averaging”. Informal conversations with other suppliers had indicated either unfamiliarity with such arrangements or unwillingness to enter into one. Bids were sought for the remaining base supply from the same 17 producers and marketers as for the swing supply.

**WITNESS RESPONSIBLE: James P. Henning**

**KyPSC Staff First Set Data Requests  
ULH&P Case No. 2004-00301  
Date Received: August 23, 2004  
Response Due Date: August 30, 2004**

**KyPSC-DR-01-004**

**REQUEST:**

4. Refer to Attachment 1, page 6 of 6. Footnote (1) states that volumes have been hedged with three of the companies listed as part of ULH&P's hedging strategy.
  - a. Do the volumes on this page of the attachment include the hedged volumes?
  - b. If the volumes include the hedged volumes, provide a breakdown of the percentage of volumes hedged for each company.

**RESPONSE:**

- a) Yes. The volumes listed in the first line of "Columbia Base" for Conoco, and all of the base volumes listed for Occidental and CM&T are hedged volumes.
- b) The percentages of hedged volumes for each company to total base and swing (at 100% load factor) for that company are listed below:

Conoco:	7%
Occidental:	9%
CM&T:	17%

**WITNESS RESPONSIBLE: James P. Henning**

**KyPSC Staff First Set Data Requests  
ULH&P Case No. 2004-00301  
Date Received: August 23, 2004  
Response Due Date: August 30, 2004**

**KyPSC-DR-01-005**

**REQUEST:**

5. Describe the effects, if any, of ULH&P's selection of CM&T as a gas supplier on CM&T's eligibility to serve as ULH&P's asset manager when the current asset manager contract expires.

**RESPONSE:**

The selection of CM&T as a supplier of natural gas for the winter of 2004-05 will have no effect on its eligibility to serve as ULH&P's asset manager. Any one of the five suppliers with which ULH&P has locked in firm supply, or one of the companies who were unsuccessful in bidding for winter supply, could serve as ULH&P's Asset Manager beginning November 1, 2004. Nevertheless, ULH&P recently conducted a competitive bidding process for a new asset manager for a two-year term beginning November 1, 2004 and CM&T was the winning bidder. ULH&P is in the process of preparing an application for Commission approval of the new asset management agreement.

**WITNESS RESPONSIBLE: James P. Henning**

**KyPSC Staff First Set Data Requests**  
**ULH&P Case No. 2004-00301**  
**Date Received: August 23, 2004**  
**Response Due Date: August 30, 2004**

**KyPSC-DR-01-006**

**REQUEST:**

6. Explain why the bids for the base load volumes were requested on a “cost-averaged” basis, while the swing load volumes were requested at the Inside FERC First of Month Index price.

**RESPONSE:**

The question does not accurately describe how ULH&P requested bids for gas supply, because the “cost-averaging” was for only 25% of base supply. Since 10% of base supply had been hedged at a fixed price, the remaining 65% was requested to be bid at the Inside FERC First of Month Index price. Further, the pricing for the swing load gas was requested at the “Gas Daily” Daily Midpoint price, not the Inside FERC First of Month Index price.

When ULH&P enters into gas supply agreements to be priced according to a published index price, ULH&P typically uses the Inside FERC First of Month Index price for base purchases, because base supply is purchased every day throughout the month. The Inside FERC First of Month Index price is a published index of gas prices for month-long supply transactions, and does not change throughout the month. When ULH&P purchases swing gas, it typically uses the Gas Daily index because swing gas might not be purchased every day of the month.

Therefore, the bids for the portion of base supply that had not been previously hedged were requested at the Inside FERC First of Month Index price, with the option to convert to a fixed price at a later time, and bids for swing load volumes were requested at the “Gas Daily” Daily Midpoint.

**WITNESS RESPONSIBLE: James P. Henning**